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ARIZONA CORPORATION COMMISSION

June 2, 2022

RE: In the Matter of the Application of Arizona Public Service Company for a Hearing to Determine the Fair Value of the Utility Property of the Company for Ratemaking Purposes, to Fix a Just and Reasonable Rate of Return Thereon, to Approve Rate Schedules Designed to Develop Such Return. (Docket No. E-01345A-22-0144)

Subject: Cost of Capital Support for Positions on APS's Transition to Clean Energy

My Fellow Commissioners, APS, and All Interested Parties:

In Arizona Public Service Company's ("APS's") rate case, it will be essential for me to review testimony on the impact of parties' positions on APS's cost of capital—especially as it relates to APS's voluntary clean energy commitments and APS's ability to meet those commitments—given the potential grid upgrades and reliability investments that will likely be necessary to support projected load and meet widespread electrification of vehicles and buildings in the next 15 years.

Accordingly, at a minimum, I will need to see the following evidentiary support on all positions taken on the following issues.

Positions on the Following Issues:

- Plant retirements, depreciation, and stranded assets;
- New plant additions, expansions, procurements, conversions, and upgrades;
- Pollution controls and environmental compliance;
- Ongoing plant operations and maintenance;
- Coal community transition and funding;
- Regional markets and RTOs;
- Transmission and distribution system upgrades and expansions;
- Energy efficiency and transportation/building electrification; and
- All other issues related to the clean energy transition.

Required Support:¹

- Cost of Capital Support;
- Quantification of Future Financial and Resource Needs; and
- Development of a "Clean Energy Proxy Group."

¹ For an explanation of the required support, please see Attachments A, B, and C below, respectively.



To facilitate the development of a robust record and help to reduce the cost of litigation for all parties, I would like APS to provide all requested information in Direct Testimony from the outset if its rate case and supplement such information in later filings as necessary.

For additional details pertaining to my request, please see Attachments A, B, and C below.

For additional context regarding these attachments, please see the *expanded* attachments to the letter I filed in Tucson Electric Power Company's rate case on June 2, 2022 (Docket No. E-01345A-22-0144).

I look forward to reviewing the requested information in the docket. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "Lea Márquez Peterson".

Lea Márquez Peterson
Chairwoman





Attachment A

Cost of Capital Support

Parties to the present rate case who believe or who have advocated in other Commission dockets² that APS should take action on any of the following issues differently than APS has currently proposed for itself should provide cost of capital evidence demonstrating why their preferred timelines, actions, or expectations, if adopted, would have no or minimal impact on APS's cost of capital or risk profile in comparison to similarly situated utilities, or else demonstrate the cost of capital that, if adopted, such parties believe would be sufficient to support their respective timelines, actions, or expectations:

- reduce the carbon emissions associated with its electric generation;
- deploy more renewable energy, energy efficiency, or energy storage resources;
- provide funds or other support to coal-impacted communities;
- join or expand its existing participation in a regional market or RTO;
- retire any of its existing generating assets; or
- take any other action related to the clean energy transition.

In addition, parties should provide evidence demonstrating the minimum ROE necessary for APS to meet its voluntary clean energy commitments safely and reliably, while maintaining affordability for customers and minimizing the impact to impacted communities.

² Such as the Energy Rules Docket or 2020 IRP Docket.



Attachment B

Quantification of Future Financial and Resource Needs

Parties to this proceeding who have advocated for a clean energy transition in other Commission dockets³ should assist the Commission in this rate case by providing evidence quantifying and substantiating, at a minimum, the following future financial and resource needs for APS related to such transition, as well as an explanation describing the extent to which the Commission should or should not consider such needs in the formulation of APS's ROE:

- the transmission and distribution system upgrades and expansions that will be needed to support new clean energy resources, and the amount of capital that will be required to support those upgrades and expansions;
- the nameplate capacity of new renewable energy and energy storage resources that will be needed to provide equal reliability and resiliency in the clean energy transition, and the amount of capital that will be necessary to support that level of new renewable energy and energy storage resources; and
- the amount of new generating resources overall that will be needed to support the widespread electrification of vehicles, buildings, and commercial and industrial processes as a part of the clean energy transition, and the amount of capital that will be required to support that level of new generation.

Documents that may be submitted to help provide such evidence may include any of the following:

- APS's most recent integrated resource plan ("IRP");
- APS's transportation electrification plan or roadmap; or
- APS's capital improvement plan or budget presented.

In addition, I expect figures related to the above financial and resource needs to be based on projections to 2035 (which correlates with the 15-year planning horizon in APS's last IRP); however, if parties wish to utilize a shorter planning horizon, they should explain why and provide evidence demonstrating why the use of the shorter timeframe is appropriate under the circumstances and will not unreasonably hinder APS's ability to meet future needs during the relevant timeframe.

³ Such as the Energy Rules Docket or 2020 IRP Docket.



Attachment C

Development of a Clean Energy Proxy Group

For purposes of determining cost of capital in this rate case, it will be essential to receive testimony supporting the development of a “Clean Energy Proxy Group,” which should utilize, at a minimum, the essential factors set forth below.

To support the development of a Clean Energy Proxy Group, APS should include in its Direct Testimony, in addition to all other information APS would typically provide in the development of a proxy group, all available information listed below for each relevant Class A electric investor-owned utility (“IOU”) operating in the contiguous 48 states and the reasons APS believes the Commission should include or exclude the IOU in APS’s proxy group.

Illustration of Essential Factors for the Development of a “Clean Energy Proxy Group”

Rate-Regulated IOU	Voluntary Clean/Renewable Energy Commitment	State Clean/Renewable Energy Standard	Current Clean/Renewable Energy Mix	Fossil Capacity Planned for Retirement and Year	RTO/ISO	State	Last ROE Approved by the PUC	Current Estimated ROE Utilizing DCF Methodology	Included or Excluded in APS’s Proxy Group and Why
“Example Utility A”	100% Clean by 2050, 50% Renew by 2035	None	% Solar, % Wind, % Nuclear	000 MWs by 2035	“XXXRTO”	“XX”	%	%	Included, because...
“Example Utility B”	None	100% Renewable by 2030	% Wind, % Hydro	000 MWs by 2030	“YYYISO”	“YY”	%	%	Excluded, because...
“Example Utility C”	None	None	None	None	“None”	“ZZ”	%	%	Included, because...
Etc.	...	...	...	...	...	...	...	...	...
Etc.	...	...	...	...	...	...	...	...	...

List of Essential Factors for the Development of a “Clean Energy Proxy Group”

- The voluntary clean & renewable energy commitments of the IOU.
- The clean & renewable energy standards adopted in the state(s) the IOU is operating in.
- The current clean & renewable energy mix of the IOU, as reported by EIA.gov or by the IOU in its most recent IRP.
- The retirement amounts and dates of fossil resources the IOU is planning to retire.
- The RTO(s) or ISO(s) the IOU is operating in, if any.
- The state(s) the IOU is subject to for both ratemaking and resource planning purposes.
- The last ROE approved by the state PUC(s) for the IOU.
- The current ROE estimated for the IOU, utilizing DCF methodology.
- An explanation for why APS included or excluded the IOU in APS’s proxy group.
- Any other factor that may be relevant to the Commission’s evaluation, such as the following:



- whether the PUC has directed the IOU to provide economic support to communities impacted by the early retirement of fossil resources or otherwise by the transition to clean energy;
- whether the IOU has voluntarily committed to provide economic support to communities impacted by the early retirement of fossil resources or otherwise by the transition to clean energy;
- whether the commissioners in the relevant jurisdiction are elected or appointed;
- whether the IOU is vertically integrated or unbundled/retail choice;
- the degree to which the IOU purchases, imports, or relies on fossil fuel-based power from wholesale energy markets or other IOUs;
- the degree to which the IOU purchases, imports, or relies on renewable energy power from wholesale energy markets or other IOUs;
- whether the IOU is owned by a public utility holding company or parent company that has adopted carbon reduction commitments or other environmental, social, and corporate governance goals;
- whether the IOU serves primarily residential, commercial, or industrial customers;
- whether the IOU serves primarily urban or rural customers, such as may be measured by the number of miles of distribution or transmission lines installed or other relevant metric;
- whether the IOU has exposure to similar extreme weather conditions, such as wildfires, drought, monsoons, or heatwaves;
- whether the IOU is experiencing growing or diminishing load; or
- whether the IOU has a net energy metering or resource comparison proxy policy or tariff in place to support the installation of residential rooftop solar;
- the installed capacity of residential rooftop solar in the IOU's service area;
- the installed capacity of PURPA qualifying facilities on the IOU's system;
- the installed capacity of community solar on the IOU's system;
- the total percentage of natural gas mix, total natural gas peaking capacity, or other total access to natural gas or other fast-start supply the IOU has available to integrate/firm intermittent renewable energy resources and serve as a bridge to transition to clean energy;
- the performance and reliability track record of the existing renewable energy and energy storage resources installed, deployed, or otherwise relied upon by the IOU during unplanned grid events, extreme weather conditions, and system outages;
- the total stranded asset potential of the IOU, based on dollar amount of depreciation expense yet to be collected;
- the availability of securitization in the IOU's relevant jurisdiction; or
- how the IOU ranks in comparison to its peers on "clean energy rankings" produced or commissioned by third parties, such as the following:
 - the ranking provided on page 8 of the Sierra Club's January 2021 "Final Greenwashing Report," titled, "The Dirty Truth About Utility Climate Pledges," available at:



<https://www.sierraclub.org/sites/www.sierraclub.org/files/blog/Final%20Greenwashing%20Report%20%281.22.2021%29.pdf>;⁴ or

- the ranking provided by the National Public Utility Council in Visual Capitalist's article titled, "Ranked: Emissions per Capita of the Top 30 U.S. Investor-Owned Utilities," available at: <https://www.visualcapitalist.com/emissions-per-capita-of-top-30-u-s-investor-owned-utilities/>.

⁴ The authors of this report omitted three of the largest California IOUs from the Sierra Club's ranking. These include Pacific Gas & Electric and its parent company (PG&E Corporation), San Diego Gas & Electric and its parent (Sempra Energy), and Southern California Edison and its parent (Edison International). Footnote 63 of the report states: "We excluded two utilities (Pacific Gas and Electric and Los Angeles Department of Water and Power) from the top 50 due to their significant amount of coal and gas purchased from power purchase agreements or bulk market purchases, which we could not account for in the scope of this study." However, the authors did include PacifiCorp, which operates in the northern part of California but is not a member of the California ISO. In a separate ranking system on page 4 (wherein a higher value is less desirable, and a lower value is more desirable), PacifiCorp was ranked highest among IOUs for the "most remaining coal without a 2030 retirement commitment," which was higher than Alabama Power. Its parent company (Berkshire Hathaway) was ranked second highest among parent companies for the same metric, which was higher than Southern Company and second only to Duke Energy Corporation (see page 4).